

EXTERNAL SECTOR

India's external economic environment continued to be supportive of growth in output and trade in 2005-06 and 2006-07 so far. The continued expansion in world output growth for a record fourth year in a row in 2007, amidst rising concerns about continuing global macroeconomic imbalances, protracted Doha negotiations, volatile international crude oil prices, and inflation, testifies to the emergence of a new phase of the external economic scenario. This new phase has been marked by robust and broad-based growth in emerging market economies, particularly with China and India together accounting for about 40% of global growth measured in purchasing power parity terms. Increasingly, India is being recognized as an important player in the global economic scenario.

The robust phase of global output expansion in the recent past has been accompanied by stable growth in world trade volume; reasonable stability in world trade prices; and supportive growth in capital flows (net) to emerging market economies and developing countries. Despite persistence of high oil prices and the higher aggregate demand, inflation, both as measured by GDP deflator and consumer prices (2.3% in 2005 and 2.6% in 2006) for advanced economies and consumer prices (5.3% in 2005 and 5.2% in 2006) for emerging market economies and developing countries, has been low. While the key world economic indicators point to a virtuous phase of global economic activity that provides a conducive environment for deepening the process of development, some downside risks remain.

Balance of Payments

Balance of payments is the equation between the receipts and payments of a country in its transactions with rest of the world.

BOP includes the current and the capital accounts. Current account comprises of the foreign trade (exports and imports) and other transactions with reference to services like travel, transport, insurance and shipping. These services are referred to as 'invisibles' as they are not recorded at Customs unlike the exports and imports.

The capital account consists of receipts and payments on capital transactions between countries. These include external assistance, investments, purchase and sale of securities, commercial borrowings, debt servicing and repayment of capital and remittances from abroad.

The growing strength of India's Balance of Payments (BoP) observed in the post-reform period since the crisis of 1991 continued in 2005-06. This growing strength was in spite of a widening of the current account deficit from US\$2.5 billion in 2004-05 to US \$ 9.2 billion, equivalent to 1.1 per cent of GDP, in 2005-06. With a burgeoning trade deficit, primarily on account of rising oil prices, the reversal from current account surpluses witnessed between 2001-02 and 2003-04 to a current account deficit in 2004-05 appears to be continuing into 2006-07 so far.

Rising foreign investment, both direct and portfolio, together with a sharp revival of inflows in non-resident (NR) deposits, in spite of the large repayment of India Millennium Deposits (IMD) under external commercial borrowing, maintained a strong balance in the capital account, and even after financing the current account deficit, resulted in a reserve accretion of US\$15.1 billion in 2005-06. While reserve accretion in 2005-06 was lower by US\$11.1 billion relative to 2004-05, because of a higher current account deficit (US\$6.7 billion)

and a lower capital account balance (US\$4.4 billion), India continued to be among the top nations with high levels of reserves.

Foreign Investment

Foreign investment in the country is essentially of two types:

- Foreign Direct Investment that is made in production and services sector like in hotels, advertising, banking etc and
- Foreign Institutional Investment where investment takes place in the capital market like in the primary and secondary stock market. FN inflows are considered 'hot money' as there is no lock in period for their investment and Withdrawal is based on profit-loss considerations only. It is also called portfolio investment as the investment is, in a Variety of capital market instruments. FDI is found to be necessary and desirable since the 8th Five Year Plan (1992-97) for the following reasons:
 - the savings-investment gap, after domestic savings are factored, needs to be filled
 - the FDI is preferred over debt, because debt leads to many Adverse consequences like high interest rates. The end use purposes are in doubt which can be wasteful and also the debt Trap prospects cannot be ruled out.
 - FDI will create a competitive climate domestically and bring in the best technology; marketing and managerial skills and culture etc. India is also ideally placed to attract FDI as it has 300mn strong middle class; relatively cheap skilled labour; technical personnel are in large number it can be the export base for exports to east and west Asia; the government policies have been conducive; sound and stable financial system; emphasis on infrastructural development; and irreversibility of reforms. Irreversibility of reforms.

Breakthrough in WTO talks

The breakthrough in the world trade negotiations under the auspices of World Trade Organization (WTO), after intense and emotive sessions of bargaining between rich and poor (or developed and developing countries), has been greeted with cautious optimism all round. The WTO, comprising 147 member-states, has this time successfully negotiated a global trade deal after spectacular failures at Cancun, (Mexico) in September. The current Doha round will initiate fresh round of detailed trade talks on the basis of agreement reached. This could provide a big boost for the world economy and could add more than \$520,000 million to the world trade by 2015. According to current estimates by the World Bank, all this may also elevate living standards of some 500 million fanners in poorer countries.

The bottomline is that the richer countries have agreed to reduce agricultural subsidies to their farmers to enable agriculture produce from poorer countries to be marketed in the developed countries and in return, poorer countries have agreed to reduce import tariffs on imported goods from the developed countries. It is a delicate compromise based on consensus on both the sides of the rich and poor fence to boost global trade.

The concessions by Europe, America and Japan - representing key developed countries - will help agriculture produce from the developing countries find new markets in rich countries. This lobby was led by China, India, Brazil and South Africa. The poorer countries argued that cutting rich countries' tariff on leading world commodities would be the first step in boosting their farm sectors. Earlier massive subsidies have driven down prices of agricultural crops that are the core part of the economies of developing countries.

The developed countries have so far defended their policy of highly subsidised agriculture to maintain prosperity and living standards of their farmers. The developed countries have further defended their agriculture subsidy policies by suggesting that rich countries have provided technical and financial aid to the developing countries. The more advanced developing countries led by China, India, Brazil and South Africa have argued that they want "more trade and less aid" from richer countries and this is the first milestone in that quest.

At Hong Kong, in December 2005, WTO Ministers had agreed to establish modalities for agriculture and Non-Agricultural Market Access (NAMA) by April 30, 2006, submit the draft Schedules by July 31, 2006 and conclude the negotiations across all areas of the Doha Round by the end of 2006. In respect of services, all Members were to file their revised offers by July 31, 2006 and submit the draft Schedules by October 31, 2006. These deadlines were missed despite intensive negotiations.

The intensive discussions through January to July 2006 had focused mainly on the triangular issues of Domestic Support, Agricultural Market Access (AMA), and NAMA. In the light of the impasse particularly in agriculture, and ruling out the possibility of finishing the Round by the end of 2006, Members agreed to suspend the negotiations across all areas of the Doha Work Programmed, and to resume them when the negotiating environment was right.

For India, the suspension has been a disappointment. It is an avoidable delay on the delivery of the development promises of the Round. India has welcomed the soft resumption of negotiations on November 16, 2006 and subsequently the full-scale resumption on February 7, 2007 on the principles that it preserves the architecture of the negotiations, inclusiveness, and the progress made so far, and leads to an outcome that is balanced, ambitious and predevelopment.

Doha round on the verge of collapse

After sitting together with developed countries to hammer out a consensus for the early launch of the Doha Round of trade talks to liberalize world trade for goods and services, India today formally broke ranks to bet its fortune on the Geneva process of negotiations of the World Trade Organisation (WTO).

Highlights

- It is the end of the day for G-4 (the US, the EU, Brazil and India) - now it is for the full membership of WTO to take the Doha Round forward.
- The Potsdam conclave was the second one of the G-4 Trade Ministers since April 2007 when they had charted out a roadmap in New Delhi for meetings among themselves to engage on all crucial and contentious issues relating to the stalled Doha Round negotiations of the WTO.
- India has stated stance that the livelihood security of millions of Indian farmers would not be compromised on any count.
- India blamed the US in particular, stating that it paid an estimated \$10.8 billion last year in farm subsidies and at this week's meeting proposed an increase to \$17 billion.
- The developed countries are looking at promoting and protecting the prosperity of their farmers, whereas in India we are talking about protecting the livelihood of our farmers.
- G-4 meeting broke down because of the failure of the developed world to accept effective reductions in their agricultural subsidies while simultaneously seeking additional market access in the developing countries for their Agricultural products.

India's stand on agricultural issues in WTO

India, and other developing countries, have, therefore, been insisting that special and differential treatment for developing countries must be integral to all aspects, including the negotiated outcome, on agriculture under the Doha Round in the WTO.

Mitigating the risks facing the low-income, resource-poor and subsistence farmers associated with price declines, price volatility and predatory competition and other market imperfections, including the huge amounts of production and Trade-distorting subsidies provided by some developed countries to their agriculture sector, remains paramount. Therefore, along with other developing countries, particularly its alliance partners in the G-20 and G-33, India has been emphasizing that the Doha agricultural outcome must include at its core:

- removal of distorting subsidies and protection by developed countries to level the playing field, and
- Appropriate provisions designed to safeguard food and/or livelihood security, and to meet the rural development needs in developing countries.

Apart from appropriate policy flexibilities to enable developing country governments to help the low-income and vulnerable producers absorb or insure themselves against risks, India has also taken the stand that governments must also be able to foster stable and remunerative prices for domestic producers in order to increase productivity and gradually move away from dependence on low-productivity agriculture.

To these ends, meaningful and effective instruments (Special Products and the Special Safeguard Mechanism) are important for developing countries like India. At Hong Kong, it has been agreed that Special Products and the Special Safeguard Mechanism shall be an integral part of the modalities and the outcome of negotiations in agriculture. Moreover, developing countries shall have the right to self-designate an appropriate number of Special

Products, guided by indicators based on the three fundamental criteria of food security, livelihood security and/or rural development needs. These designated products will attract more flexible treatment. Developing country Members will also have the right to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers, with precise arrangements to be further defined.

India's Regional Trading Arrangements

India views Regional Trading Arrangements (RTAs) as 'building blocks' towards the overall objective of trade liberalization complementing the multilateral trading system. In the past, India had adopted a very cautious and guarded approach to regionalism. Recognizing that RTAs would continue to feature prominently in world trade, India engaged with its trading partners/blocks with the intention of expanding its export market and began concluding in principle agreements and moving in some cases even towards Comprehensive Economic Cooperation Agreements (CECAs) which covers Free Trade Agreement (FTA) in goods, services, investments and identified areas of economic cooperation. Framework agreements have already been entered into with a number of trading partners with specific road maps to be followed and specified time frames by which the negotiations are to be completed.

India: Status of FTAs/ RTAs

India-Sri Lanka Free Trade Agreement (ISLFTA)

India-Sri Lanka Free Trade Agreement, signed in December, 1998 and in operation since March, 2000, provided for tariff reduction/elimination in a phased manner on all items except the negative list and tariff rate quota (TRQ) items. While India has already completed the tariff elimination programme in March 2003, Sri Lanka is scheduled to reach zero duty by 2008.

The two countries have since initiated negotiations in August 2004 on Comprehensive Economic Partnership Agreement (CEPA) which covers trade in services and investment.

Agreement on S AFTA: The Agreement on South Asia Free Trade Area (SAFTA) was signed during the 12th SAARC Summit on January 6, 2004 in Islamabad. Since then, negotiations on four annexes — Rules of origin, Sensitive lists, Revenue compensation for LDCs, and Technical assistance to LDCs — have been completed. The tariff liberalization programme under the Agreement has been implemented from July 1, 2006.

Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India: Framework Agreement on Comprehensive Economic Cooperation was signed on October 8, 2003 in Bali. The Trade Negotiating Committee (TNC) is negotiating FTA in goods.

Framework Agreement for establishing Free Trade Area between India and Thailand: The Framework Agreement for establishing Free Trade Area between India and Thailand was signed on October 9, 2003 in Bangkok. The Early Harvest Scheme covering 82 items for exchange of concessions between India and Thailand has been implemented with effect from September 1, 2004. The TNC is already negotiating FTA in goods; and negotiations on services and investment are at a preliminary stage.

Framework Agreement on the BIMSTEC FTA: The Framework Agreement on the BIMSTEC (Bay of Bengal initiative for Multi-sectoral Technical & Economic Cooperation) Free Trade Area was signed in February, 2004 at Phuket by Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. The Framework Agreement provides for implementing FTA on Goods with effect from July 1, 2006. Negotiations are being held by the TNC on FTA in goods, services and investment.

Comprehensive Economic Cooperation

Agreement (CECA) between India and Singapore: India-Singapore CECA, signed on June 29, 2005, came into force on August 1, 2005. The Agreement provides for Early Harvest Scheme, phased reduction/elimination of duties on products other than those in the negative list by India by April 1, 2009, whereas Singapore eliminated duties on all products originating from India from August 1, 2005. CECA also covers investment, services, Mutual Recognition Agreement, and customs cooperation.

India-Afghanistan Preferential Trade Agreement: A Preferential Trade Agreement (PTA) between India and Afghanistan was signed on March 6, 2003. India has granted concessions on 38 products, mainly fresh and dry fruits, in return for concessions on 8 items for exports to Afghanistan.

India - MERCOSUR Preferential Trade Agreement (PTA): A PTA was signed between India and MERCOSUR (Brazil, Argentina, Uruguay and Paraguay) on January 25, 2004 in New Delhi. The annexes to the PTA were signed on March 19, 2005 in New Delhi. The PTA will be operational after its ratification by the legislatures of MERCOSUR countries.

Bangkok Agreement: Bangkok Agreement is a PTA signed in July 1975 among Bangladesh, Republic of Korea, Sri Lanka and India. China acceded to this Agreement in 2001. This Agreement has been renamed as Asia Pacific Trade Agreement (APTA) from November 2, 2005. Three rounds of negotiations have been concluded under this Agreement. The Third Round concessions have been implemented from September 1, 2006.

Global System of Trade Preferences (GSTP): Two rounds of negotiations have been held under GSTP signed in April 1998. 44 developing countries have acceded to this Agreement. Third round of negotiations, launched in June 2004, are expected to be concluded by the end of 2007.

SAARC Preferential Trade Area (SAPTA): Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka are participants in the Agreement signed in April, 1993. Four rounds of negotiations have been concluded under SAPTA. Concessions exchanged during the four rounds of SAPTA have already been implemented.

India-Chile Framework Agreement on Economic Cooperation: A Framework Agreement on Economic Cooperation was signed between India and Chile on January 20, 2005. The Agreement envisages a PTA between two sides. The negotiations on PTA have been concluded, and the Agreement was signed on March 8, 2006.

SAFTA in place from January 1, 2006**Objective**

The basic objective of SAFTA is to reduce extant tariffs to less than 5 per cent within the stipulated time frame of 2016 by all the participating countries with due compensation to LDCs for loss of revenues on account of tariff reduction Being undertaken by them on a phased liberalisation programme.

Highlights of SAFTA

- Bowing to intense demand from domestic industries that cheap and low-cost suppliers from neighbouring countries would dump the domestic market by piggybacking on the concessional conduits being provided by SAFTA, it has been agreed to keep rigorous rules of origin and also two Separate sensitive lists.
- Under rules of origin, for according preferential access to member countries under SAFTA, the goods have to undergo substantial manufacturing process in the exporting countries.
- The substantial manufacturing processes are defined in terms of twin criteria of Change of Tariff Heading at four-digit Harmonised Coding System and domestic value content of 40 per cent for non-LDCs and 30 per cent for LDCs. On the two separate sensitive lists India has finalised, a longer list is for non-LDCs (Pakistan and Sri Lanka) and a shorter one for LDCs.
- Thus, India has kept 884 tariff lines in the sensitive list for non-LDCs and 763 tariff lines for LDCs. India's sensitive lists include mainly goods from agriculture sector, textile sector, chemicals and leathers and sectors reserved for small-scale industries.
- India has also given approval that MFN (Most Favoured Nation) applied rate existing on January 1, 2000 would be taken as base rate for the Purpose of tariff reduction. It has also been decided to bring out the customs notification from July 1, 2006 in order to adopt a uniform date Of tariff liberalisation programme.
- India's total trade with SAARC countries rose from \$4,816.88 million in 2003-04 to \$5,205.57 million last year, registering an increase of 8.07%.

India-Korea Joint Task Force (JTF): Based on the recommendations of the Joint Study Group (JSG), India and Korea constituted a Joint Task Force for having negotiations on FTA in goods, services and investment. Four Rounds of Negotiations have been held so far.

India-China Joint Task Force (JTF): A Joint Task Force between India and China has been set up to study in detail the feasibility of, and the benefits that may derive from the possible China-India Regional Trading Arrangement and also give its recommendations regarding its content.

India-Gulf Cooperation Council (GCC) FTA: A Framework Agreement on Economic Cooperation was signed between India and GCC on August 25, 2004. The first round of negotiations on India-GCC FTA was held in Riyadh on March 21 -22, 2006 wherein the GCC side agreed to include services as well as investment and General Economic Cooperation, along with goods, in the proposed FTA.

PTA/CECPA between India & Mauritius: A Preferential Trade Agreement (PTA)/Comprehensive Economic Cooperation & Partnership Agreement (CECPA) are being negotiated with Mauritius which is likely to be finalized shortly.

Framework Agreement with South Africa Customs Union (SACU): A decision has been taken to enter into a Framework Agreement with the South African Customs Union (SACU).

The Agreement will aim to promote expansion of trade and provide a mechanism to negotiate and conclude a comprehensive Free Trade Agreement within a reasonable time.

India-Israel Preferential Trade Agreement: Negotiation process for India-Israel Preferential Trade Agreement has commenced.

FOREIGN TRADE POLICY (2004-2009)

Objectives

- (1) To double India's percentage share of global merchandise trade by 2009. 1.5% share of global trade by 2009.
- (2) To act as an effective instrument of economic growth by giving a thrust to employment Generation, especially in semi-urban and rural areas.

Policy Highlights

- Special focus on five traditional exports - agriculture, handcrafts, handlooms, leather and footwear, and
Gems and jewellery so as to make exports employment oriented.
- A new Handicraft Special Economic Zone would be established.
- Absolute export sector to be exempted from service tax for cutting down export cost.
- New service Export Promotion Council constituted for services.
- Free Trade and Warehousing Zones under a new scheme has been established to make India a global trading hub. FDI would be permitted upto 100% in the development and establishment of the zones and their infrastructure facilities.
- Domestic Tariff Area have been exempt from service tax and all exporters with minimum

turnover of Rs. 5 crore and good track record have been exempted from W^A furnishing Bank guarantee in any of the schemes so as to reduce their transaction costs.

- Liberalisation of EPCG scheme.
- Duty free import conditions for seeds.
- Ban on old machinery imports lifted.
- Biotechnology parks would be established in the country which would get all facilities of 100% Export Oriented Units.
- Three new export promotion schemes had been introduced:

(a) Vishesh Krishi Upaj Yojna

(b) Served from India

(c) Target plus Scheme

- (a) Vishesh Krishi Upaj Yojna to be introduced for boosting exports of agricultural products, export of flowers, fruits, vegetables, minor forest produce and their value added products. In the annual supplement of FTP (2004-09) to meet the objective of employment generation in rural and semi-urban areas, export of village and cottage industry products were included in Vishesh Krishi Upaj Yojna, renamed as Vishesh Krishi Gram Udyog Yojna.
- (B) Served from India scheme will boost export of services. Now it allows transfer of both the scrip and imported input to the group service company while, earlier, transfer of imported material only was allowed.
- (c) Target plus scheme, under which exporters, who achieve quantum growth in exports would be entitled to duty free credit based on incremental exports substantially higher than the general annual export target.
- Government would promote establishment of Common Facility Centre for use by home based service provided.
 - The exports from India are likely to generate incremental employment of 21 millions between 2004-05 and 2009-10. Thus in order to give a thrust to the manufacture of industrial products and generate employment, in the annual revision of FTP the 'Focus Product Scheme' was formulated. The scheme allows duty-credit facility at 2.5% of FOB value of exports on 50% of export turnover of notified products like added fish and leather products, sports goods, handloom and handicraft items, fire works etc.
 - A number of measures announced in FTP, mid Term Review of annual policy 2006-07 to achieve the objective of making India a gems and Jewellery hub, allowing all categories of foreign exchange earnings in exchange earners foreign currency accounts.
 - A number of procedural changes have been effected to streamline the existing provisions like enabling Information Technology enabled services to avail refund of Central Sales Tax and Interest payments on delayed refunds.
 - Percentage share of India in world trade - 1%. India's share in world merchandise exports grew at more than double the rate of growth of world exports since 2005. For the first time in 2005 and first eight months of 2006, India's export growth surpassed that of China.

Annual Foreign Trade Policy 2007-08

- Announced on April 19, 2007.
- Export target for 2007-08 at \$160 billion.
- Introduction of two export promotion schemes incentivising high tech exports and agro processing.
- All services rendered abroad or export oriented services delivered in India made exempted from 12.24% service tax.

- Focus Market scheme have been extended to 16 more countries.
- Duty entitlement pass book scheme extended upto March 31, 2008.
- Vishesh Krishi Upaj Yojna extended to include items like coconut oil, potato flakes, soaps etc.
- Duty free import of tools, machinery and equipments for handicrafts and gems and jewellery sectors.
- Norms for availing the benefits under EPCG scheme for handlooms and handicrafts sector has been simplified by increasing the export obligations period to 12 years from the current 8 years.
- Status holder scheme revamped.

BALANCE OF PAYMENTS (BOP)

Balance of payment of India is classified into - (a) BOP on current account (b) BOP on capital account

(a) BOP on current account includes:

- (i) Visible trade relating to imports and exports.
- (ii) Invisible items, viz., receipts and payments for such services as shopping, insurance, banking etc.
- (iii) Unilateral transfer such as calamity relief package.

(b) BOP on capital account shows the implications of current transactions for the country's international financial position for instance, the surplus and the deficit of the current account are reflected in the capital account, through changes in foreign exchange reserves of country, which are an index of the current strength or weaker of a country's international payments position, are also included in capital account.

- BOP on current account had been position in 1972-73, 1976-77, 2001-02, 2002-03 and 2003-04. As a percentage of GDP - (.7%), (1.2%), (2.3%).
- India went to IMF for Special Drawing Rights in 6, 5 year plan but in 2001, India became net donor to IMF.
- For the first time during last 40 years, net invisibles became negative in 1990-91 due to outflow of investment income.
- The severe drought of 1965-66 and 1966-67 compelled India to take PL480 food aid assistance on massive scale from USA in its public law assistance programme.

Devaluation periods

- (1) 1949- Devaluation was resorted to liberate the currency from colonial control as Britishers had kept rupee over valued.
- (2) 1966- Due to sharp rise in oil prices; stagflation entire production sector was established.
- (3) 1991- Two step devaluation
 - (i) June 1991
 - (ii) Late July

Mainly due to economic crises of 1990. Gulf crises of 1989-90 had pressured our BOP account and forex change reserves were less than \$1 billion.

Current Account

1. **Exports (X)** - India's exports (merchandise) grew at a rate of 23.88% in 2006-07. Export performance was dominated by volume growth till 2002-03. Reversal of trend in 2003-04, with increasing contribution of higher unit value.

2. **Imports (M)** - Merchandise imports grew at the rate of 29.33% in 2006-07.
3. **TRADE BALANCE (X-M)**- Due to rise in both imports and exports, country's trade deficit got burdened to a massive \$64.9 billion in 2006-07 from \$51.86 in 2005-06 which shows a growth of 25%, since the increase in trade deficit was more than nominal growth in GDP (15.2%) in 2006-07, as a percentage of GDP the trade deficit increased further to 7.1% of GDP from 6.4% of GDP in the year 2005-06.

The local trade gap widened for the first half of the year 2007 mainly due to rupee appreciation putting pressure on exports and higher non-POL imports. Trade gap is placed at \$36.92 billion against \$26.02 billion attained during April-Sept 2007.

Invisibles

- (a) **Non factor services:** It includes information Technology enabled services (ITES), Health services, educational services, travel and transportation etc.
 - **Information Technology Enabled services** comprises of Business Process Outsourcing (BPO) - Standing at \$11 billion today and set to cross \$30 billion by 2012. Indian BPO industry remains buoyant.
 - **Accounting Process Outsourcing:** Outsourcing of accounting services.
 - **Legal Process Outsourcing:** Outsourcing of legal services
 - **Tutorial Process Outsourcing:** Includes international trade for tutorial services under World Trade Organisation norms. First contract for TPO is received by Career Launcher.
 - **Engineering Process Outsourcing:** Providing engineering services
- (b) **Private Transfers/remit:** Includes contribution made by Non-resident Indians. Private Transfers which remained the single largest component of invisibles (net) account till 2004-05, fell below miscellaneous receipts in 2005-06. As per the RBI's preliminary BOP data for the first six months of the year reveal that remittances from Indians working abroad, which form a part of private transfers, were higher at \$19 billion, up from \$12.7 billion.
- (b) **Net Investment Income:** In 2005-06, investment income continued to be negative reflecting the servicing costs of capital inflows.
- (c) **Official transfers:** A very small component in invisible account, continued to decline in 2004-05 and 2005-06.
 - In early 6 months of 2007 invisible receipts have increased at a much slower pace mainly on account of a deceleration in the reports of both software and business services. This ominous development is once again partly attributable to strong rupee and its impact on the margins of leading software exporters.
 - In 2006-07 the software and service export is estimated at \$31.3 billion which shows a robust growth of 32%. Key drivers were electronic and IT exports with a growth of 35%.
 - Now with the rupee appreciation and slowdown in the US economy, the Indian IT industry will have to evolve. Innovation, New delivery Model and building business beyond borders will help the industry to survive and become a global leader.
 - In 2005, while India's share and ranking in world merchandise exports were 1 percent and 29 respectively, its share and ranking in world commercial services exports was 2.3% and 11 respectively. By growing faster than merchandise exports, services exports constituted almost 60% of merchandise exports in 2005-06.

5. **Current Account Balance:** After remaining positive in 2001-02, 2002-03 and 2003-04 it turned negative in 2004-05.

Due to a strong growth in invisibles, the country's current account deficit was contained at a reasonable 1.1% of GDP in 2006-07. India's current account deficit during second quarter (July-September) 2007-08 narrowed to \$5.5 billion from \$6.3 billion registered during the same period of 2006. Roughly accounted 0.5% of GDP mainly due to doubled semi Hances by NRI's despite a widening trade deficit.

Capital Account

6. **External assistance (net)** - as a percentage of total capital flows it turned negative in 2002-03 (-29.4%), 2003-04 (-16%) but trend got reversed in 2004-05 it EA again became positive EA is a debt creating flow. It is the money borrowed from outside the country at concessional rate of interest and for longer period of time, with either an aid component or initial holiday period. Such loans are also called soft loans.
7. **External Commercial borrowing (ECB)** - Also known as hard loans, it is the money borrowed at prevailing rate of interest and terms of repayments as per outside the country.

ECB's can be divided into:

1. **Short term ECB:** Maturity period upto 1 year.
2. **Long term ECB:** More than one year maturely period Majority of ECB's is long term.

Important ECB schemes

1. **India development bond scheme-** Launched in 1991-92 by State Bank of India. Five yearly bonds were sold under the scheme mostly to Non-Resident Indians and Around \$4 m were mobilised. These bonds were redeemed (returned back) into 1995-96.
2. **Resurgent India bond scheme-** Launched in financial year 1998-99 by State Bank of India in response to economic sanctions imposed by developed countries. 5 yearly bonds were sold to Non-resident Indians, Persons of Indian Origin Scheme could mobilise around \$5b.
3. **India Millennium Deposit Scheme-** Launched in 2000 by State Bank of India. Five yearly fixed deposit certificates were sold by State Bank of India to NRIs, PIOs & OCBs. The scheme mobilised around \$5.2b. Bond redeemed in 2006.
 - Net external Commercial borrowing remained negative in 2001-02, 2002-03 and 2003-04 after which it became positive.
 - In the country's external debt front, ECBs emerged as the single biggest contributor to capital inflows even when FDI in the country increased nearly 80% in 2006-07. At \$16 billion, ECBs accounted for over 35% of capital inflows in 2006-07.
 - In the year 2006-07, 56% of the increase in external debt was accounted for by ECBs.
 - Government disincentives to check unbridled external commercial borrowings have not borne. Furt Capital flows in this category have almost doubled.
8. **International Monetary Fund (net)-** India has been able to borrow from the fund from time to time to overcome her BOP difficulties, But from a borrower, India turned a net donor to IMF in 2001 and now she is not borrowing any more.

IMF

IMF is one of the furins born as a result of the Brelton Woods Agreement concluded in 1944 and thus IMF founded on Dec 27, 1945. With HQs at Washington, USA it was entrusted with the task of looking after the problems of international liquid and exchange rate stability. 31 founder members.

Main Objectives

- (1) To help member nations tide over their balance of payment difficulties of short term and long term character.
- (2) To promote exchange rate stability and avoid competitive exchange rate depreciation.
- (3) To re-establish multilateral trade among the member countries.
- (4) To move in the direction of dismantling trade and tariff barriers which separate member serunders through tariff, quotas etc.

Membership and subscription

Any country can become a member provide

- (a) The country is willing (b) Willing to pay a subscription.

At present IMF has a membership of around 185 nations.

Article 7- If demand for a currency exceeds the available supply with the fund, fund will declare the currency to be 'scarce' & take steps to augment the supply of the currency by other means.

Article 8- Countries to open their respective Balance of payment accounts, making their currency convertible.

- In 1970, IMF introduced the most ingenious plan the Special Drawing Plan or SDRs. It was unanimously approved by all countries (except Frame) in 1967 at Rio De Janeiro in Brazil & came into effect in 1970
- SDRs are a form of paper gold, they are first book keeping entries and created at regular intervals by the fund and are allocated among member countries on the basis of each country's quota.

India and IMF

- India is a founder member of IMF and was one of the largest subscribers.
- India borrowed \$100 million from the fund during 1948-49 but paid back the amount by 1956-57. In 1981, India borrowed a massive amount of SDR (500 million) from IMF to overcome its external BOP problems arising basically from oil imports. This was the single largest loan made by IMF a member country at that time.
- Due to worsening current account deficit in 1990-91, India's ability to finance the deficit had weakened massively. India once again went to IMF for rescue. While agreeing to come to the assistance of India's, IMF insisted that certain conditions should be fulfilled by India's - the condition ability Clauses.
- (a) Of IMF's member countries.
- Camille Gutt of Belguim was the first Managing Director of IMF and the present one (9th MD) is Dominigne strouess Kahn of France, who assumed office on Nov 1, 2007.
- The contrd and managment of IMF rests in Board of Governors.
- The Finance Minister of India is the ex-officio member of the Governing body of IMF.

9. **Non- resident deposits (net)** - Savings of non-resident Indians, Overseas corporate bodies and persons of Indian origin deposited with resident Financial Institutions of India are called non-resident deposits. Indian banks offer two types of accounts called NR deposits.
 1. FCNRB- Foreign currency non-resident bank accounts.
In such accounts rate of interest is also to be paid in foreign currency which is linked to London inter-bank offer rate. It increases availability of foreign funds in India due to which exchange rate of rupee remains stable.
 2. NRERA- Non resident external rupee account. It is inverted in rupee form and rate of interest kept in the unit of rupee, higher than the prevailing rate of interest in India.
 - In the last seventeen years ending 2006-07, non resident deposits remained an important and relatively stable source of capital flows.
 - If a proportion of total capital flows, it had strengthened in the four year period 2000-04 to above 20%, but such deposits became a source of negative flows in 2004-05. Resumption of earlier trend in 2005-06, with proportion rising to 11.5%.
 - In the six months beginning in 2007, NRI deposits have shown a trend of net outflow, reflecting lower deposit rates. However in 2006-07, they were the second most important contributor to external debt after External Commercial borrowings.
10. **Foreign Investment (net):**
 - (1) FDI (net)
 - (2) FIIs
 - (3) Euro Equities & others
 - (1) **FDI:** (a) **Greenfield FDI:** FDI which results in expansion in production Capacity due to change in ownership. Eg- Greenfield airports coming up in Shamshabad (Andhra) and Devanahalli (Karnataka)
 - (b) **Brown Field FDI:** FDI which results in change in managerial control without addition in production capacity.
12. **Other Flows (net):** The remaining items that can-not be categorized into current and capital account categories since the full balance of payment account must be balanced there items are-
 - (1) **Errors A and Omissions:** These are to take into account the difficulty of accurately recording all the wide variety of transactions that take place in accounting period.
 - (2) Other Items which are new
13. **Capital Account (net):** In 2005-06 and 2006-07, capital flows into India remained strong on overall basis with capital account surplus rising simultaneously with current account deficit. Debt creating flows, particularly external assistance external commercial borrowings. NR deposits, which had turned into net outflow in 2002-03 and 2003-04, became positive flows in 2005-06.
 - India's capital account surplus widened to \$33.9 billion during July-September 2007-08 from \$ 8.7 billion a year earlier.
 - Capital inflows- The aggregate of net inflows in 2006-07 and 2007-08 has propped up the Balance of payment and this time the increase is very substantial and it covered almost all Categories. Increased capital inflows can import macro-economic aggregates through exchange rates, trade & monetary variables. However the economy's capacity to absorb such capital inflow as indicated by the level of current account deficit has not risen so fast as inflows.

- Due to excess liquidity caused largely by capital inflows, the biggest challenge for monetary policy is the management of capital flows & attendant implications for liquidity and overall stability.

Convertibility and related issues

The term convertibility related to the right of a holder of a national currency to freely exchange it into each and every other national currency at the prevailing exchange rate.

There are three types of exchange rate regime-

- (1) **Floating Exchange Rate Regime:** There is fully convertibility on entire Balance of Payment account and exchange rate is determined by demand & supply forces and as these forces change, exchange rate allows changes. Eg- Foreign Exchange management Act entails the some characteristics of this regime.
 - (2) **Fixed Exchange Rate Regime:** Exchange rate is determined and adjusted through administrative decision, without giving any say to market forces. Thus zero convertibility. Eg-Foreign exchange regulation Act- 1973 had the characteristics of fixed ex-change rate regime. The called paged exchange rate regime.
 - (3) **Mixed Regime/Managed Currency Regime:** Exchange rate is allowed in a given band to adjust in accordance with changes in market forces. But of exchange rate is Trans, gressing levels then administrative body interferes to manage the market forces.
- A popular variety at various stages of transition has been the so called crawling peg: in such a regime, a weak and gradual depreciation of national currency against a basket of the currencies of major trade partners was preannounced (within a permissible band) and then unimplemented.
 - **Dirty Float:** We allow the exchange rate basically to be determined by market forces of demand and supply for foreign exchange (clean), but we allow government intervention into foreign exchange market to, what one may call, set right the ups and downs in exchange rate movement (thus becomes dirty).

Current Account Convertibility

The right to convert the local currency Payments relation to imports of goods & services. For all practical purposes, including, and most of all a international negotiations, whether a country has or has not achieved current account convertibility is judged by the fact whether the respective has accepted or not Article VIII status according to Articles of agreement of IMP.

- Partial convertibility of rupee was introduced in 1992-93 Under this system a dual exchange rate was
Fixed under which 40% of foreign exchange was to be surrendered at the official exchange rate while the remaining 60% of foreign exchange was to be converted at a marked be terminated rate.
- 1993-94 budgets introduced full convertibility on trade account. Dual exchange rate was dispensed with and a unified exchange rate system introduced.
- India introduced current account convertibility in August 1994 and accepted obligations under Article VIII of IMF.
- Thus India's balance of Payment account is partially convertible with only current account being convertible and zero convertibility on capital Account.

Capital Account Convertibility

It relates to the right to convert the local currency into foreign currencies for to purpose of capital transactions and transfers.

- A committee on Capital Account Convertibility was set up by RBI under the chairmanship of former RBI deputy governor S.S Tarapore to “lay the road map” for capital account convertibility.
- The 5-member committee recommended a three year time frame for complete convertibility by 1999-2000.
The three crucial pre-conditions were:
 - (1) Fiscal Consolidation
 - (2) A Mandated Inflation
 - (3) Strengthening of Financial System
- East Asian crises intervened soon thereafter leading to lack of popular enthusiasm for capital account convertibility.
- In response to Prime Minister’s statement regarding laying out a road map on capital account convertibility based on current realities RBI constituted a committee (Chairman: S.S. Tarapore) on March 20, 2006. It detailed a broad five year time frame for movement towards fuller convertibility in 3 phases. Phase I - (2006-07)
Phases II - (2007-08 to 2008-09)
Phases III - (2009-10 to 2010-2011)
- Committee calibrated the liberalization road map to the specific contexts of preparedness- namely, a strong macro economic framework, sound financial systems and markets and prudential regulatory and supervisory architecture. The committee recommended imposition of goods and services less on financial services, current account deficit to GDP ratio under 3 percent, meeting FRBM targets, Prohibiting FIIS from investing fresh money raised through participatory notes.
- Later on Finance Ministry released the 15 member expert committee’s report, headed by PERCY S. MISTRY that recommended full capital account rupee convertibility by 2008. Abolition of securities trans-action tax, slump duties, cutting down public debts, creation of currency spot market and rupee settled exchange traded currency derivatives market are some of the recommendations.

Foreign Exchange Reserves

Forex reserves can be classified into:

- (1) Foreign currency reserve
 - (2) Bullion reserve (Gold)
 - (3) Special Drawing Right held by IMF
 - (4) Foreign Securities held by RBI
- Reduction in these assets will be used to finance expenditures abroad. Reductions appear as a credit item in the BOP (because their sale causes foreign exchange inflow appears as into the country). An increase in these reserves will appear as a debit because purchasing assets will cause an outflow of foreign exchange.
 - The continuance of the robust net capital inflows not only helped financing reining current account debit but also resulted in further accretion to exchange reserves.

External Debt

- India’s total foreign debt rose by 22.6% to \$155 billion in 2006-07 as compared to \$126 billion in 2005-2006 as companies went overseas to borrow on account of cheaper credit.

- In rupee terms, India's external debt stood at Rs. 6,75,857 crore, accounting for 16.4% of GDP. In terms of composition, 56% of the increase was accounted for by external commercial 16% short term debt

Presently India's foreign exchange reserves are about one and half times its total external debt. The debt service ratio- ratio of interest charges and loan repayments to export earnings showed "a perceptible improvement", declining to 4.8% last year from 9.9% a year ago.

- Short term debt to GDP ratio rose to 1.3%./ short term debt to total debt rose to 7.7% short term debt to foreign exchange assets to 6.2% short term debt rose mainly due to rising imports and import related trade credits.
- World Bank & IMF developed jointly by a centralised database system called Quarterly External Debt Statistics (QEDS) prescribing certain standard formats of debt data reporting. India joined it in November 2006.
- According to Govt. Of India report on India's external debt, India. India was seventh in position among the top ten debtor countries in 2005 with total external debt \$123.12 billion.
- China > Russia > Brazil > Turkey > Mexico > Indonesia > India> Argentina> Poland> Hungary (Total external debt in decreasing order)

Dumping

- With its diversified manufacturing and export base, India has been one of the major users as well as one of the major targets of anti dumping measures in the world.
- According to an investigation initiated by top ten users of anti dumping measures, 1995-2006. India reported the highest anti dumping initiations with 20 new initiations followed by European Union and Australia.

INTERNATIONAL ORGANISATION

IBRD

- IBRD, popularly known as World Bank, owes its birth to the deliberations of United Nations Monetary and Financial Conference which met at Bretton Woods, New Hampshire and the World Bank and the IMF were established. World Bank was established in 1945 with HQ at Washington.
- While the IMF provides short term loans to correct disequilibrium in Balance of payment, World Bank Provides long term loans-
 - (i) To assist the reconstruction and reconstruction and development of territories of member nations destroyed or disrupted by wars
 - (ii) To assist and encourage the development of less developed member countries.
 - (iii) To promote private foreign investment by means of Guarantees or participation in loans and investment made by private investors & to supplement private investment by its own tranches.
 - (iv) To promote long range balanced growth of international trade and maintenance of equilibriums in the BOP of all members' countries.
- Any country is eligible for membership of WB if it subscribes to its charter under Bank's Articles of Agreement. Only those countries which are members of IMF can be

considered for membership of W.B.

- All the powers of control and management are vested in Board of governor.

India and WB

- India is a founder member of Bank. She presided at the annual general meeting of the Bank held in Paris in 1950.
- By 1958, India had become the single largest borrower of the bank.
- A consortium of countries and international institutions interested in assisting India has been formed under the auspices of WB and is commonly known as Aid India club, now renamed India Development Forum.

Affiliates of WB

- (1) International Development Association (IDA) IDA was started in 1960 as an affiliate of WB to make soft loans for long periods and low rate of interest. These loans were given for creating “Social Capital” such as construction of roads & bridges, slum clearance & urban development etc.
 - (2) International Finance Corporation (IFC) set up in 1955 to invest in private productive enterprises in association with private investors and without government guarantee of repayment. IFC stimulates productive investment of private capital, both foreign & domestic.
- As per the data released by World Bank, India has become the largest borrower of World Bank group institutions accounting \$3 75 billion (15% of the total lending by all) in 2006-07. WB also provided \$ 700 million to the health sector in India. This lending witnessed a whopping 170% increase & highest loan sanction made by WB in the history of its engagement with India.
 - IFC - the private sector lending affiliate of WB has decided to fund 4000 MW ultra mega Power Project to be developed by Tata Power at Maunder in Gujarat.
 - WB has given approved to fund Rs. 7000 crore to build eight proposed hydel power project in Himachal Pradesh.
 - WB to provide \$ 944 million for strengthening rural credit cooperative project, vocational education training project and additional credit. For Karnataka community based water tank management project. World Bank's report entitled “Global Economic Development: Technology Diffusion in the developing world” presents the view that India is likely to witness further moderation in eco. Growth with GDP slipping to 8.4% in 2008 but may marginally improve to 8.5% in 2009.
 - West Bengal government has sought a loan of \$ 300 million from WB for minor irrigation schemes over 2, 3,500 acres form land.
 - The world Bank has approved \$ 65 million additional aid for Andhra Pradesh's Rural Poverty Reduction Project, a programme that has improved the lives of 5-7 million women since its inception in 2008.
 - Miga: Multilateral Investment guarantees Agency Established in 1988. It supports and encourages foreign investment in developing countries WB President.

World Intellectual Property Organisation (WIPO)

- WIPO was established by WIPO Convention signed at Stockholm on July 14, 1967 and came into force on April 26, 1970. Its headquarters in Geneva, Switzerland.
- It is responsible for promoting the progressive development and harmonization of

Intellectual Property legislation, standards and procedures among member states.

- It aims to promote intellectual property into national development policies and programmes and develop international intellectual property laws and standards.
- It creates and disseminates a wealth of public outer each material to increase understanding of how to protect and benefit from the resulting intellectual property.
- It provides services to enable users to file international applications for patents and international registration for trademark designs & appellations of origin.
- With 184 countries as members and 250 organisations currently accredited as observers at WIPO meetings. In 1886, copyright entered international arena with Berne connection for protection of literacy and Artistic works.
- Kamil Idris is the Director General of WIPO
- Protection of Intellectual Property rights is guided by Paris Convention.

World Trade Organisation

- Genesis: General agreement on Tariff and Trade set up in 1947 to provide a framework for the conduct of trade relation by reducing trade barriers in inter-national trade and thus providing a set of rules of conduct.
- Eight rounds of GATT were conducted initiating in Geneva in 1947. The eighth round known as Uruguay Round was announced in Marrakesh meeting in 1994 with signing of Final act by GATT members. It paved the way for setting up of WTO.
- WTO agreement came into force from Jan 1, 1995 'GATT was not, really an org. It was just a legal arrangement while WTO is a new international organisation set up as a permanent body and de-signed to play the. Role of a watchdog in the sphere of trade in goods and trade in services, preign investment, and intellectual property rights etc.
- The highest body is the Ministerial Conference. Jain agreement of WTO is agreement on agriculture agreement on trade in textiles and clothing or Multifibre Arrangement which calls for phasing out import quotas on textiles & clothing by 1 January, 2005.
- Agreement on Trade related investment means uses calls for introducing national treatment of foreign investments and removed of quantitative restrictions. Agreement on Trade Related Intellectual Property Rights, agreement on services etc.
- There is a dispute settlement Body, seeks to plug the loopholes and thus provide security and predictability to the multilateral trading system. It has now been made mandatory to settle a dispute within 18 months.

Subsidies

- (1) **Green Box:** None distorting in terms of production and trade direct income support Unlinked to productions saving environment.
- (2) **Blue Box:** Less trade distorting because white the directly links production to subsidies, They also set limits on production Eg - By quotas.
- (3) **Amber Box:** Most trade distorting, primarily by encouraging excessive productions.

Doha Round of Negotiations

- Fourth Ministerial meet took place at Doha in 2001. It entails certain features:
 - (1) Doha declaration announced the launch of a new round of negotiations to be concluded by Jan 1, 2005 called Doha Round.
 - (2) Doha declaration stated that aim would be substantial improvements in market access, reduction of and ultimately phasing out all trade distorting subsidies-
 - (3) **TRIP and Public Wealth:** The agreement can and should be interpreted & implemented in a manner suppositive of WTO members 'right to protect public health.

- (4) **Environment & labour issues:** Negotiations on environment issues were agreed to and labour issues were to be left to ILO.
- (5) Greater access for industrial products of developing countries.
- The three issues under basic issue of agriculture are
 - (1) Trade distorting subsidies
 - (2) Export Competition
 - (3) Market excess
 - It is estimated that EU and US provide subsidy of nearly \$ 1 billion a day. In 2005, the level of trade distorting support to agriculture in US was \$ 19.7 billion & on the other hand, it demanded huge concessions from developing countries in terms of reduced tariff and enhanced market access for both agricultural & non - agricultural products and services.
 - In the mini- Ministerial meet in Geneva in 2006, EU had agreed to reduce average farm Tariffs by 51% this was a significant step forward. But US is not particularly bothered about arriving at an agreement.
 - US has still not repeated its '30' and super '30' provisions which enable imposition of sanctions against countries that harm its trade business. Continues to provide priority states for patent rights on first to invent basis rather than first to file basis adopted by all other countries.
 - As a consequence of pressure from developing nations US & EU relented and accepted a number of issues. Irritants for developing nations.
- (1) It was agreed that developing countries need not source their essential medicines & drugs at high cost from western MNCs which hold patents.
- (2) Reduction and elimination of tariffs in non-agriculture goods & other barriers, mainly on products that are important to developing countries is another gain.
- (3) With regards to services, it is hoped that India would gain by increasing access for banking, insurance and other companies and increasing opportunities for people to work in other countries.
- (4) US agreed to review anti dumping rules.
- (5) WTO appointed a 9 member committee to which key issues of TRIPS had been referred to. India & Brazil made its members. The Govt, of India passed an order on December 26, 2004 for the amendment in the patent act in context with agreement of WTO thus Product Patent systems has been declared effective for Jan 1, 2005.
- (6) India felt some relief through non-Agreement market access on industrial imports -a Swiss formula presented by EU.
- In the Hong Kong Ministerial meet it was decided to eliminate export subsidies in agriculture by 2013.
 - Duty free, quota free market access for all LDC's products to all developed countries. In cotton, export subsidies to be eliminated by developed countries in 2006 and trade distorting domestic subsidies to be reduced more ambitious by & over a short period of time.

As a part of commitment to WTO, India has made its patent law consistent from January 1, 2005. It includes extending product patent regime to food, drugs, chemicals agro chemicals & biotechnical product.

WTO CONFERENCES

First	Singapore
Second	Geneva
Third	Seattle
Fourth	Doha
Fifth	Cancun
Sixth	Hongkong
Head	- Pascal hamy

United Nations conference on Trade Development (UNCTAD)

Genesis: The Cairo Conference of the developing countries held in July 1962 on the problems of economic development passed the Cairo Declaration on Developing countries calling for conference on Trade & Deputed and constituting on International Trade Organisation which would consider vital questions relating to international trade of poor nations.

- First UNCTAD was organised in Geneva from March to June 1964. UNCTAD was established as a permanent organ of UN General Assembly which defines the functions, activities and membership of UNCTAD. Trade and Development Board is the policy making body of UNCTAD.
- The main purpose of creating UNCTAD is to pro-mote speedy development of underdeveloped countries by solving the problems of the sluggish expansions of their export trade, deficits in their external BOP and excessive burden of foreign debt etc.
- UNCTAD II was organised in 1968 in New Delhi.
- In 2005, UNCTAD launched Development India which is a comprehensive review of global trade and development performance, integrating key factors & indicators like international finance, trade performance, human capital and physical infrastructure. In a recent report India has been ranked at 86 m place while US first.
- According to Trade and Development Report 2006, released by UNCTAD, India has become the tenth largest developing economy in terms of overseas investment received with \$ 5.5 billion in 2004 while china tops the list.
India did not figure among the top ten developing countries with the largest FDI inward Stock.
- According to UNCTAD's world Investment Report, India has emerged as the second most attractive location after China for Global FDI in 2007. India was the 4 largest suspecting of FDI during 2005-06.
- UNCTAD has projected India's economic growth for 2007-08 to be 8.5%, whereas china's growth at 10.5% during same fiscal.
- According to a survey conducted by world Economic Forum, India has been ranked 48m in Global Competitiveness Index 2008-08. US topping the list.
- India ranks 69th in Global Economic Freedom India in 2005 according to Economic Freedom Index in 2005 according to Economic Federation of World Report 2007 released by commerce minister of India Kamal Nath.

Asian Development Bank (ADB)

- ADB is a multinational development financial instillation established for the purpose of lending funds, promoting investment and providing technical assistance for promoting the economic and social progress of its developing member countries in Asia and Pacific region.

- ADB with its HQ at Manila (Philippines) started its operation in 1966.
- India is the third largest subscriber of ADB - after Japan and China.

South Asia Free Trade Agreement (SAFTA)

- Agreement on SAFTA was signed during the 12th SAARC Summit on January 6, 2004 in Islamabad.
- Negotiations Completed on:
 - (1) Rules of Origin
 - (2) Sensitive lists
 - (3) Revenue Compensation for LDCs
 - (4) Technical assistance to LDCs
- The tariff liberalisation programme under the agreement has been implemented from July 1, 2006.

Asia Pacific Economic Cooperation

APEC was established in 1989 for the independent economic development of the countries of Asia-Pacific regions.

- Members - 21
- India is not a member of APEC and further has to wait for its membership till 2010.
- HQ- Singapore
- Director - Piamsak Maria (Chile)
- Summit was held at Australia and the recent one, i.e. 19th summit was also hosted by Australia (SYDNEY).

Outcome

- (1) Sydney declaration on climate change
- (2) Energy security and clean development
- (3) Setting specific goals on reducing energy intensity and increasing forest cause in the region by atleast 20 million hectares by 2020.
- (4) Stand-alone statement on Doha round of WTO negotiation was also issued reaffirming leaders support for multilateral trading system.

- APEC countries represent 56% of world GDP & nearly half of the Global trade.
- Next APEC summit to be held in PERU (2008)
- Establishment - The five important industrialized countries formed G-5- Germany, Japan, Britain, France & US
- In 1976, Canada and Italy joined G-5 and it became G7.
- On 10 July, 1994, Russia joined G7 and finally present G-8 formed.
- 33rd G-8 summit took place in HELGIGEN DAMN (Germany).
- Key Issues (1) Grow & Responsibility was the central theme
- (2) Climate protection & thus common goals for the reduction of green house gases.
- (3) Helping Africa by increasing official developments assistance by 2010 & by US \$ 25 billion each year.
- (4) Fair investment Promotion by 2009.
 - For the first time developing countries like India, China, Brazil was invited in the 29th summit held at France.
 - 2008 Summit to be held in Japan.

Group of 20 (G-20)

- (i) Block of developed and developing nations established in 1999 as a response both to the financial crises of late 1990s and a growing recognition that key emerging markets were not adequately included in the case of global economic discussion & governance.
- (ii) MD-IMF & President- WB and Chairman of International. Monetary and Financial Committee of IMF and WB also Participate in G-20 meetings ex-offices basis.
- (iii) G-20 chair rotates between member nations. For 2006 it was Australia, 2007- South Africa.

SOCIAL SECTOR

- Various studies on poverty indicate that while growth in per capita income is a necessary condition for poverty reduction, it is by no means sufficient. It is also important to focus on creating an enabling environment for the poor to participate in, and benefit from, the growth process. The pro-poor public policies include creation of employment opportunities and enhancing the level of health, education and skill of the poor.
- Plan and Non-plan expenditure of the central government for social services such as education, health, family welfare, water supply. Housing etc has more than doubled from Rs 18240 crore in 1995-96 to Rs 74,439 crore in 2005-06.
- However, trend witnessed in the total plan and non-plan expenditure on the social sector by both centre and states indicate that there had been a continuous decline of the share of social sector in total expenditure since 2000-01.
- In the last two decades there is a significant decline in proportion of people living below poverty line, from 51.5% in 1977-78 to 26.1% in 1999-2000. In absolute terms, the number of the poor declined from 328.9 million in 1977-78 to 260.3 million in 1999-2000.
- Though poverty has declined at the micro-level, there are wide rural- urban and inter-state disparities in the improvement pattern.
- Significant declines in the incidence of poverty were witnessed in Andhra Pradesh, Gujarat, Haryana, Punjab, Karnataka, Kerala, West Bengal, and Maharashtra.
- Tenth Plan also focus on specific sectors which provide greater opportunities for the poor to participate in the growth process. Plan allocation has been enhanced in areas of health, education, sanitation etc.
- There has been decline in the rate of growth of employment Command Daily Status (CDS) during the 1990s. (2.7 per cent per annum in 1983-94 to 1.07% per annum in 1994-2000.

- On the other hand, employment growth in all the sub-sectors within services, such as trade, hotels, transport, communication, and financial and business services, (except community social and personal services having negative growth rate) exceeded 5% per annum.
- There are larger inter-state differentials in unemployment during the period 1993-94 to 1999-2000; growth in employment was the highest in Haryana (2.43%), followed by Gujarat (2.3%), while Kerala recorded the least growth of employment 0.07%.
- National Population Policy, 2000 provides a policy framework for advancing goals and prioritizing strategies during the next decade to meet the reproductive and child health needs of the people of India, and to achieve net replacement levels of total fertility rate by 2010.
- Among the major states, the states of Kerala and Tamil Nadu have already achieved the replacement of fertility viz. Total Fertility Rate (TFR) of 2.1 while the states of Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Orissa, Punjab and West Bengal, having a TFR in the range, of 2.2 to 3 arcs in the direction of achieving the replacement level of fertility.
- The Empowered Action Group (EAG) has been set up to raise performance (social) indicators of lagged states. The EAG states are Bihar, Chhattisgarh, Jharkhand, MP, Orissa, Rajasthan, Uttaranchal, and Uttar Pradesh. These states' TFR range between 4 to 4.8, and crude birth rates and death rates are also high.

Poverty Alleviation Programmes

SGSY (Swarnajayanti Gram Swarozgar Yojana)

- Launched: April 1, 1999
- SGSY = IRDP (Rural Debt) + DWCRA (Women & Children) + TRYSEM (Rural Youth) + MWS (wells) + GKY(farmer) + SITRA (Artisans)
- Cost sharing basis- 75:25
- Self Employment programme, focusing on poverty alleviation Promotes self help group; development of micro enterprises (asset creation) through bank credit and government subsidy)
- 50% benefit to SCs and STs; 40% for women, and 3% for disabled

SGRY (Sampoorna Grameen Rozgar Yojana)

- Launched in September 2001
- Cost sharing basis- 87.5:12.5
- SGRY=SGRY+JGSY(villagework) + EAS (employment), from April 1,2002
- To provide wage employment in rural areas; ensuring of food security; creation of durable community; social and economic infrastructure
- Implementation through Panchayati Raj system.

PMGY (Pradhan Mantri Gramodaya Yojana)

- Launched in 2000-01
- Launched in all states & UT's in order to achieve the objective of sustainable human development at the village level.

- Village level development in 6 crucial areas: Primary health, primary education, rural shelter, rural drinking water, nutrition and rural electrification
- Some of its areas got impetus through the Bharat Nirman Scheme.

PMGSY (Pradhan Mantri Gram Sadak Yojana)

- Launched on 25th December 2000
- To provide road connectivity by good quality all weather roads to 1.60 lakh Unconnected Habitations with a population of 500 persons or more in the rural areas (250 in the case of hilly area) by the end of the Tenth Plan period (2007). Source for funding of PMGSY is the diesel cess, 50% of which is earmarked for PMGSY
- Estimated cost, Rs 60,000 crore
- Bharat Nirman Yojana has also taken the road construction objective.

Pradhan Mantri Gramodaya Yojana (Gramin Awaas)

- Launched: April 2000
- Sustainable habitat development in rural areas; to meet housing needs of poor.

Pradhan Mantri Gramodaya Yojana - Rural Drinking Water Project

- A minimum of 25% of the total allocation to be utilized on projects/schemes for water conservation/harvesting/recharge/source development in respect of areas under Desert Development Programme/Drought Prone Areas Programme.
- Rural drinking water schemes are being done under the Rajiv Gandhi Drinking Water Mission.

SJSRY (Swarna Jayanti Shahri Rozgar Yojana)

- Launched in December 1997
- Cost sharing basis- 75:25
- Two special schemes run (1) The Urban Self Employment Programme (2) Urban Wage Employment Programme
- SJSRY (Swarna Jayanti Shahari Rojgar Yojana) is a rationalised (merged) version of the erstwhile schemes of Urban Basic Services, NRY (Rozgar) and PM's Integrated Urban Poverty Eradication Programmes.
- Gainful employment to the urban unemployed poor through encouraging the setting up of self-employment ventures or provision of wage employment.
- 30% women, 3% disabled; SC/STs on the strength of local population

IAY (Indira Awaas Yojana)

- The Indira Awaas Yojana (IAY) launched in 1996
- Cost sharing basis- 75:25,
- Construction of houses and money to be given to poor. Criteria of allocation of funds to states /UTs has changed from poverty ratio to equally reflect the poverty ratio and housing shortage in the states. Similarly, criteria for allocating funds to districts changed from poverty ratio to equally reflect SC/ST population and housing shortage. (minimum 60% to SCs/STs)
- Rs 20,000 for normal areas; Rs 22,000 for hills/difficult areas

Samagra Awaas Yojana 1999-2000

On pilot project basis in one developmental block each in 25 districts of 24 states. Integrated provision of shelter, sanitation and drinking water with special emphasis on technology transfer, human resource development and habitat improvement with people's participation.

Food for Work Programme

- Launched in February 2001
- Augmenting food security through wage employment in drought affected rural areas in 8 states: Gujarat, Chhattisgarh, Himachal Pradesh, MP, Maharashtra, Orissa, Rajasthan and Uttaranchal Programme further extended till March 31, 2002 in respect of notified "Natural Calamity Affected Districts."

Antyodaya Anna Yojana

- Launched in the year 2000
- 2 crore poorest families out of BPL families under TPDS (targeted) are identified.
- 35 kg of foodgrains are to be made available to each eligible family at highly subsidised rates.
- Wheat to be supplied @ Rs. 2 per kg
- Rice to be supplied @ Rs. 3 per kg
- Rs 3500 crore subsidy on this scheme

Annapurna

- Launched in 1999-2000
- 100% Centrally sponsored
- To meet requirement of the senior citizens.
- 10 kgs. Of foodgrain per person per month supplied free of cost.

Jai Prakash Rojgar Guarantee Yojana (2002)

- The scheme seeks to provide guaranteed employment to unemployed in the most distressed districts of the country. (Operational modalities are being worked out.)
- Employment on demand within 15 days, and a minimum guarantee of 100 days employment.

Valmiki Ambedkar Awaas Yojana (VAMBY)

- Launched in year 2001
- The scheme seeks to ameliorate the conditions of urban slum dwellers living below the poverty line that do not possess adequate shelter. **Nirmal Bharat Abhiyan** is a component of the scheme to provide a healthy and enabling urban environment through community toilets.

Integrated Child Development Scheme (ICDS)

The ICDS scheme is the world's largest publicly funded programme for early childhood. Since its inception in 1975, the scheme continues to be the flagship scheme towards promoting the over all development of the young children (0-6 years) - especially the girl child, and expectant and nursing mothers all over the country through its holistic package of six basic services - health check up, immunization, referral services, supplementary nutrition, pre-school education and health and nutritional education through a single window delivery.

Kishori Shakti Yojana (KSY)

As a part of ICDS programme, KSY was launched in 2000-01 for adolescent girls in the age group of 11-18 years. The scheme aims at breaking the inter-generational life cycle of nutritional and gender disadvantages and providing a supportive environment for self development by promoting awareness on health, hygiene, nutrition, home management, child care, and training to improve/ upgrade vocational skills.

Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

JNNURM, which is for a seven year period from 2005-06, has two main components - Basic Services to the Urban Poor (BSUP) Programme and Integrated Housing and Slum Development Programme (IHSDP). BSUP was launched to assist cities and towns in taking up housing and infrastructural facilities for the urban poor in 63 selected cities in the country. IHSDP for taking up housing and slum up gradation programmes in non-BSUP cities was launched along with BSUP in December 2005.

National Rural Employment Guarantee Scheme (NREGS)

With the NREG Act being passed in September, 2005, the NREGS was implemented from February 2, 2006 in 200 identified districts of the country with the objective of providing 100 days of guaranteed unskilled wage employment to each rural household opting for it. The ongoing programmes of SGRY and National Food for Work Programme (NFFWP) have been subsumed under NREGS in these districts. NREGS will cover all districts of the country within five years. The NREGS, a demand-driven scheme, has its focus on works relating to water conservation, drought proofing (including afforestation/tree plantation), land development, flood control/protection (including drainage in waterlogged areas) and rural connectivity in terms of all-weather roads.

National Rural Health Mission (NRHM)

NRHM is the main vehicle for giving effect to the mandate of the NCMP. Operationalized throughout the country, its special focus is on 18 States with weaker health infrastructure and health status indicators. Provision of accessible, affordable, accountable, effective and reliable primary health care facilities especially to the poor and vulnerable sections of the population, bridging the gap in rural health care services through creation of a cadre of Accredited Social Health Activists (ASHA), improved hospital care, decentralized planning, ensuring population stabilization, intersectoral convergence and maintaining gender balance constitute the basic features of the NRHM.

The Mission envisaged selection of a trained female community health worker called ASHA in each village in the ratio of one per 1000 population in all 18 high-focus States and in tribal and under-served areas of other States. ASHA would reinforce community action for universal immunization, safe delivery, and newborn care, prevention of waterborne and other communicable diseases, nutrition and sanitation. ASHAs would work in close coordination with the Anganwadi Workers (AWW). ASHAs would also provide immediate and easy access for the rural population to essential health supplies like Oral Rehydration Solution (ORS), contraceptives, set often basic drugs, and a health communication kit developed for villages.